Wisconsin Department of Revenue
Division of Research and Policy
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# MUNICIPAL AND COUNTY AID
# (State Shared Revenues)

The municipal and county aid program, formerly called state shared revenues, provides unrestricted aid to municipalities and counties. It is the largest aid payment for municipalities and an important source of revenue for counties.

## Background

State revenue sharing began in 1911 when the state income tax was enacted. At that time, 10% of income tax proceeds were retained by the state, 70% were paid to the taxpayer's municipality of residence, and 20% were paid to the taxpayer's county of residence. The sharing of income taxes provided a precedent under which other state taxes were also shared with municipalities and counties on a return-to-origins basis.

Over time, dissatisfaction with the return-to-origins tax sharing system grew because of the fiscal disparities the system created. Communities with high levels of business activity or many high-income individuals received generous aid payments while communities with low levels of business activity or many low-income individuals received relatively small aid payments.

In 1972, the return-to-origins system was replaced with a system that used measures of need to determine aid payments. From 1972 to 2003, the revenue sharing program had three general goals: (1) Providing property tax relief, based on the assumption that aid payments reduced the amount recipients needed to levy. (2) Equalizing revenue raising ability so that aid payments would increase as equalized value per capita decreased. (3) Providing compensation for the services provided to certain utility properties exempt from property taxation but subject to state taxes.

Changes enacted by the 2001 and 2003 Legislatures retained the policy goals of property tax relief and compensation for utility property. However, the policy goal of equalizing the ability of local governments to raise revenue was suspended. The changes affected payments to municipalities and counties differently. It is therefore necessary to discuss these changes separately.

## Payments for Municipalities: 2001 to 2003

In 2001, the shared revenue program for municipalities consisted of four separate payments, as follows:

1. *Per Capita*. Each municipality received about $26.7093 per resident, based on its estimated population on January 1, 2001, (as determined by the Wisconsin Department of Administration [DOA] before adjusting for the results of the 2000 U.S. Census of Population).

2. *Utility*. This payment had three parts: (a) A payment based on the net book value (original cost less depreciation) of qualifying property (production plants, substations,

and general structures, but excluding land) of electric and gas utilities. Towns received a payment of 3 mills on the net book value. Villages and cities received a payment of 6 mills on net book value. The total value on which payments were made could not exceed $125 million per utility company or for a jointly owned power plant. Payments could also not exceed $300 per capita. (b) A payment of $50,000 to municipalities where spent nuclear fuel was stored. If the nuclear fuel storage facility was located within one mile of another municipality, the municipality where the fuel was stored received $40,000 and the nearby municipality received $10,000. (c) If a municipality had a generating plant with a rated capacity of 200 megawatts or more, the payment could not be less than $75,000. (A more complete discussion of the utility payment can be found in a separate paper devoted solely to that payment.)

3. *Aidable Revenues*. This payment sought to equalize the property tax rate needed to finance a given level of per capita spending. The payment was calculated as follows:

| | | | |
|---|---|---|---|
| Aidable Revenues Payment = | 3-Year Average of Local Purpose Revenues | X | Tax Base Weight |

Local purpose revenues (LPR) included the municipality's own-purpose property tax levy, some local fees (fire calls, garbage collection, and sewerage service), and aidable revenues payments. Payments in 2001 were calculated using the average LPR for 1997, 1998, and 1999.

The tax base weight measured the extent to which a municipality's per capita value fell below some standardized value. It equaled the greater of zero or the amount calculated as follows:

$$\text{Tax Base Weight} = 1 - \frac{\text{Municipal equalized value per person}}{\text{Standardized value per person}}$$

The municipal equalized value used above excluded the value of manufacturing real property and included the value of tax-exempt computer property. Calculations were based on the prior year's value and population (for 2001, equalized value for 2000 and 2000 population estimates from DOA before adjusting for the results of the 2000 U.S. Census of Population were used). The standardized value per person was set at the level which distributed all funds available for distribution. For payments in 2001, the standardized value per person was $53,256.

4. *Minimum-maximum adjustment*. This adjustment provided that shared revenue payments in a given year (excluding utility payments) could not be less than 95% of the prior year's payment (excluding utility payments). Any minimum payments were funded by limiting growth in shared revenue payments to a "maximum allowable percentage increase", set so that the sum of the payment reductions exactly equaled the sum of the minimum payments.

Under 2001 Wisconsin Act 16, the shared revenue formula for municipalities was suspended for purposes of calculating payments in 2002 and 2003. Payments for these two years were as follows:

1. The payment in 2002 was set at 101% of the total payments under the four-part formula in 2001.

2. The payment in 2003 was set at 101% of the payment made in 2002 (or 102.01% of the payment under the four-part formula in 2001). However, a provision of 2003 Wisconsin Act 33 "reduced" payments to municipalities by $7.59 million. Under this "reduction", the Department of Health and Family Services (DHFS) paid supplemental aid to certain municipalities for providing medically-related transportation services, and DOR "deducted" that same amount from those municipalities' aid under the municipal and county aid program.

**Payments for Counties: 2001 to 2003**

For 2001, 2002, and 2003, the shared revenue formula for counties consisted of four separate payments, as follows:

1. *Utility*. This payment had three parts: (a) A payment calculated for each municipality in a county based on the net book value used to calculate each municipality's payment. The county received 6 mills for property located in towns and 3 mills for property located in villages or cities. Calculated payments were summed across the county. The payment could not exceed $100 per capita. (b) A payment of $50,000 to counties where spent nuclear fuel was stored. (c) If a county had a generating plant with a rated capacity of 200 megawatts or more, the payment could not be less than $75,000. (A more complete discussion of the shared revenue utility payments can be found in a separate paper devoted solely to that subject.)

2. *Aidable Revenues*. The aidable revenues payment sought to equalize the property tax rate for a given level of per capita spending. It was calculated by the following formula:

| | | | | |
|---|---|---|---|---|
| County Aidable Revenues Payment | = | 3-Year Average of Local Purpose Revenues | X 85% X | Tax Base Weight |

   Local purpose revenues (LPR) included the county's own-purpose property tax levy, some local fees, and aidable revenues payments. For 2001 payments, LPRs for 1997, 1998, and 1999 were used. For 2002 payments, LPRs for 1998, 1999, and 2000 were used. For 2003 payments, LPRs for 1999, 2000, and 2001 were used.

   The tax base weight measured the extent to which a county's per capita value fell below some standardized value. It equaled the greater of zero or the amount calculated as follows:

$$\text{Tax Base Weight} = 1 - \frac{\text{County equalized value per person}}{\text{Standardized value per person}}$$

   The county equalized value was the total value plus the value of tax-exempt computer equipment, but excluding the value increment (if positive) in tax incremental districts. Payments were calculated using prior year value and population. (Payments in 2001 were calculated using DOA population estimates that did not reflect the results of the 2000 U.S. Census of Population. DOA population estimates used to calculate 2002 and 2003 payments reflected the results of the 2000 U.S. Census.) The standardized value per capita was $52,634 for 2001 payments, $56,047 for 2002 payments, and $58,367 for 2003 payments.

3. *Minimum-maximum adjustment*. The adjustment provided that payments in a given year could not be less than 95% of payments in the prior year. Any minimum payments needed were funded by limiting growth in payments to a "maximum allowable percentage increase" set at a level at which the sum of the payment reductions exactly equaled the sum of the minimum payments. Utility payments and county mandate payments (discussed later) were excluded when determining the adjustment.

   Beginning in 1996, counties with no incorporated municipalities (Florence and Menominee) were exempted from the "maximum allowable increase". Beginning in 2002, a county organized in 1846 or 1847 whose 1990 population was between 16,000 and 17,000 (Lafayette) was also exempted from the "maximum allowable increase".

4. *County mandate relief*. This payment was distributed based on each county's estimated population (using DOA population estimates). The total amount distributed and the resultant per capita payments for 2001, 2002, and 2003 were as follows:

| Year | Total Payment | Payment Per Capita |
|---|---|---|
| 2001 | $ 20,763,800 | $ 3.8797 |
| 2002 | 20,971,400 | 3.8833 |
| 2003 | 21,181,100 | 3.8837 |

A provision of 2003 Wisconsin Act 33 "reduced" payments to counties by about $2.41 million. As with municipalities, under the "reduction," DHFS paid supplemental aid to counties for providing medical-related transportation services, and DOR "deducted" that amount from the county's aid under the municipal and county aid program.

**Payments for Municipalities and Counties in 2004**

Under 2003 Wisconsin Act 33, payments for municipalities and counties in 2004 were made as follows:

1. *Utility payment*: Formula payments were reinstated for municipalities and continued for counties. (The shared revenue utility payments are discussed in a separate paper.)

2. *Base payment - counties*: The starting point was the total payment in 2003 minus the utility payment, but ignoring any aid "reductions" due to DHFS aids. From this amount, $20 million was subtracted on a per capita basis (at a rate of about $3.64 using DOA population estimates for 2003).

3. *Base payment - municipalities*: The starting point was the total payment in 2003, plus payments under the small municipality shared revenue program (discussed in a separate paper), minus what the 2003 utility payment would have been had the 3-part formula been used, but ignoring any aid "reductions" due to DHFS aids. From this amount, two subtractions were made. (a) A total of $20 million applied on a per capita basis (at a rate of about $3.64 using DOA population estimates for 2003). (b) A total of $50 million, applied on a per capita basis (at a rate of about $12.78 using DOA population estimates for 2003), but limited to no more than 15.68513% of the payment remaining after the initial $20 million reduction.

4. 2003 Act 164 adjustment - m*unicipalities:* The treatment of utility payments when

calculating the base payment assumed that net book values for 2003 were similar to those used in 2001. For places with new power plants, this assumption was incorrect. Under the adjustment, the starting point for calculating the base payment (per the prior paragraph) included no subtraction for 2003 utility payments for municipalities where (a) the utility payment in 2001 was less than 25% of its total shared revenue payment (excluding expenditure restraint payments), and (b) the utility payment in 2004 was more than 75% of its total unadjusted (pre-Act-164) municipal and county aid payment (excluding expenditure restraint payments). Two municipalities benefited: the Town of Quincy in Adams County ($20,660) and the Village of Combined Locks in Outagamie County ($262,183). The adjustment was funded by reducing payments to all other municipalities by about 0.0403%.

From the amount calculated above, a "reduction" for aid supplements paid by DHFS was made in 2004. Of the total "reduction" of $10 million, $7.48 million was allocated to municipalities and $2.52 million was allocated to counties. Because these "reductions" are replaced dollar for dollar by the DHFS supplements, they have no net impact on any county or municipality.

**Payments for Municipalities and Counties in 2005 and Thereafter**

Under provisions of 2003 Act 33, payments in 2005 and beyond will be made as follows:

1. *Utility payments*: Payments will continue to be made. However, for new power plants, major changes to the formula were made by 2003 Acts 31 and 89. These changes are discussed in a separate paper on the shared revenue utility payments.

2. Base payme*nts*: Payments will equal the amount paid in 2004 after the two reductions and the Act 164 adjustment, but excluding the DHFS aid reduction.

"Reductions" for DHFS aid supplements will continue to be made. For 2005, the total "reduction" was $10 million. Based on the 2005/07 biennial budget, the annual "reduction" for 2006 and thereafter will be about $5 million. Projections of the municipal-county split are not available.

**Payment Schedule**

Using payments in 2006 as an example, payments to municipalities and counties are made on the following schedule:

1. On September 15, 2005, the "original estimate" was sent to municipalities and counties.

2. On the fourth Monday in July 2006 (July 24, 2006), 15% of "original estimate" was paid to municipalities and counties.

3. On the third Monday in November 2006 (November 20, 2006), the payment will be "re-estimated" to correct for errors in the "original estimate". The remainder (generally 85%) of the payment not made in July 2006 will be distributed.

4. On the third Monday in November 2007 (November 19, 2007) the payment will be "re-cast", which constitutes the final corrections, for errors in "re-estimated" payments. Any adjustments will be reflected in the payments distributed on this date.

**Payment Totals: 2005, 2006, and 2007**

Estimated total payments, excluding the DHFS "reduction" for 2005, 2006, and 2007 are as follows:

| Item: | 2005 | 2006 | 2007 |
|---|---|---|---|
| Municipalities | | | |
| Utility | 16,642,723 | 18,960,840 | 18,743,040 |
| Base | 702,483,276 | 702,483,276 | 702,483,276 |
| Total | 719,125,999 | 721,444,116 | 721,226,317 |
| | | | |
| Counties: | | | |
| Utility | 17,176,187 | 19,609,873 | 19,409,116 |
| Base | 157,219,848 | 157,219,848 | 157,219,848 |
| Total | 174,396,035 | 176,829,721 | 176,628,964 |
| | | | |
| Total | 893,522,034 | 898,273,837 | 897,855,281 |